

Message Text

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ACTION EB-04

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R 031740Z FEB 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8682

INFO AMEMBASSY PARIS

AMEMBASSY BONN

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION OECD PARIS

USMISSION EC BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 01713

LIMDIS GREENBACK

PASS TREASURY AND FRB

E.O. 11652: GDS

TAGS: EFIN, UK

SUBJECT: EC MONETARY COMMITTEE MEETING JANUARY 30; COM-
MENTS ON UK EXCHANGE RATE POLICY

1. HM TREASURY OFFICIAL WHO ATTENDED JANUARY 30 EC MONETARY COMMITTEE MEETING GAVE FINANCIAL ATTACHE BRIEF RUN-DOWN. HE TERMED IT GENERALLY UNEVENTFUL. THERE WAS CONSIDERABLE TIME DEVOTED TO REHASH OF JAMAICA INTERIM COMMITTEE MEETING AND GOLD AGREEMENT FOR THE BENEFIT OF THOSE WHO HAD NOT ATTENDED THE SESSIONS. SOURCE SAID NOTHING WAS DISCUSSED ON THESE POINTS NOT ALREADY KNOWN TO US OFFICIALS.

2. THERE WAS SOME DISCUSSION ABOUT THE ITALIAN SITUATION AND OVERLAPPING EFFECTS ON THE FRENCH FRANC, WITH SHARPEST DISCUSSION APPARENTLY IN CORRIDORS RATHER THAN AT THE TABLE. SOURCE SAID ITALIAN TECHNICIANS APPEAR STYMIED.

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THEY KNOW WHAT POLICIES SHOULD BE FOLLOWED BUT THE SITUA-

TION IS OVERSHADOWED BY LACK OF POLITICAL CONFIDENCE. IN ATTEMPTING TO PUT TOGETHER SUPPORT OPERATIONS, "THEY CAN WRITE THE PROSPECTUS BUT CAN'T BE CERTAIN OF GETTING SIGNATURES IN ROME TO GO ON IT." FRENCH AND OTHER EC OFFICIALS CONSIDERED THE WAY IN WHICH THE ITALIANS CLOSED THEIR EXCHANGE MARKET AN EXAMPLE OF HOW NOT TO DO IT. SOURCE SAID HE HAD HEARD FROM FRENCH OFFICIALS THAT THERE IS DEMAND FROM FRENCH EXPORTERS FOR A COMPETITIVE DEVALUATION.

3. THERE WAS A BRIEF REVIEW OF THE IRISH BUDGET AND OF THE UK ECONOMY. UK DELEGATE WHO MADE THE PRESENTATION INDICATED HE IS RELATIVELY OPTIMISTIC FOR 1976 AND TOOK THIS LINE DURING THE DISCUSSION. HE ADDED THAT PRIVATELY, HE IS CONCERNED THAT FOR THE UK, THERE IS A DANGER THAT THE WORLD ECONOMY MAY TAKE OFF TOO RAPIDLY, CREATING DOMESTIC AND INTERNATIONAL SUPPLY CONSTRAINTS WITH NEGATIVE BALANCE OF PAYMENTS EFFECTS FOR THE UK IN 1977, INCLUDING POSSIBLE DETERIORATING TERMS OF TRADE IF COMMODITY PRICES SHOOT UPWARDS, UK TREASURY OFFICIALS WILL BE KEEPING THESE POINTS UNDER REVIEW.

4. SOURCE REPORTED THAT TINDEMANN'S REPORT WAS TAKEN OFF MONETARY COMMITTEE AGENDA, FOR INITIAL CONSIDERATION BY HIGHER BODIES FOR WHICH IT WAS WRITTEN. MONETARY COMMITTEE MAY NOT DISCUSS IT UNTIL APRIL. HM TREASURY HAS SOME MISGIVINGS ON THE TINDEMANN'S REPORT, WHICH WAS TERMED "SLIGHTLY DISAPPOINTING." FOR EXAMPLE, IF THE UK WERE TO ACCEPT A REENTRY INTO THE EC SNAKE, THIS WOULD IMPLY A SHARP INCREASE IN DOMESTIC UNEMPLOYMENT NEEDED TO STABILIZE POUND IN SNAKE.

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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 01713

LIMDIS GREENBACK

5. UK EXCHANGE RATE POLICY

FINANCIAL ATTACHE HAS HAD RECENT FRAGMENTED CONVERSATIONS ON UK EXCHANGE RATE POLICY WITH HMTREASURY AND BANK OF ENGLAND OFFICIALS. MOST FORTHRIGHT STATEMENT WAS MADE BY GORDON DOWNEY, UNDER SECRETARY, HM TREASURY, DURING LAST WEEK'S OECD EXAMINATION OF UK ECONOMY. DOWNEY NOTED THAT THE POUND IS FLOATING. IT WILL CONTINUE TO DO SO. THE POLICY IS FOR A FLEXIBLE, FLOATING RATE, WITH INTERVENTION TO MAINTAIN ORDERLY MARKETS BUT NOT TO COUNTER BASIC ECONOMIA TRENDS. THE STRATEGY HOPES TO MAINTAIN "CONSTANT COMPETITIVENESS" OF THE POUND, WHICH OECD SECRETARIAT OFFIAIAL INFORMALLY CALCULATED AS A FURTHER DROP OF FOUR PERCENT IN THE TRADE WEIGHTED DEVALUATION DURING 1976, TO THE 34 TO 35 PERCENT RANGE.

6. HM TREASUPY OFFICIAL REPORTED THERE IS SOME RELUCTANCE AT THE BANK OD ENGLAND TO SEE THE POUND DROP BELOW \$2 (AND BANK OF ENGLAND SOURCES CONFIRM THIS) BUT THE SAME HM TREASURY OFFICIAL SAID HE WOULD PERSONALLY PREFER TO CONFIDENTIAL

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SEE THE POUND GYRATING AROUND THE \$2 MARK -- FALL BELOW IT, RISE ABOVE IT, FALL BELOW IT -- IN ORDER TO REMOVE ANY THOUGHT THAT THERE IS AN OFFICIAL TARGET RATE FOR THE POUND. HM TREASURY OFFICIALS STATE EMPHATICALLY THAT THERE IS NOT.

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